# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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## FISCAL IMPACT STATEMENT

**LS 6636**
**BILL NUMBER:** SB 384

**DATE PREPARED:** Jan 28, 1999
**BILL AMENDED:**

**SUBJECT:** Income tax credits.

**FISCAL ANALYST:** Brian Tabor
**PHONE NUMBER:** 233-9456

**FUNDS AFFECTED:** X **GENERAL**
**DEDICATED**
**FEDERAL**

**IMPACT:** State

| STATE IMPACT | FY 1999 | FY 2000 | FY 2001 |
|---|---|---|---|
| State Revenues | | (136,400,000) | (155,200,000) |
| State Expenditures | | | |
| Net Increase (Decrease) | | (136,400,000) | (155,200,000) |

**Summary of Legislation:** This bill provides a refundable state tax credit for low income individuals equal to 20% of the federal earned income credit amount beginning in tax year 1999 (returns filed in 2000). It also repeals the earned income deduction.

**Effective Date:** January 1, 1999 (retroactive).

**Explanation of State Expenditures:** This bill creates an new tax credit and repeals an existing deduction. The Department of Revenue would incur some additional costs as a result of these changes. The Department would have to adjust relevant forms, but would be able to absorb any related expenses of processing, printing, and computer programming within its current budget.

**Explanation of State Revenues:** This bill would provide a credit against state income tax liability for individuals who receive a federal earned income credit in the same taxable year. The state credit would be equal to 20% of the federal credit. If the credit established by this proposal exceeds an individual's state income tax liability for the taxable year, the excess may be either refunded or carried forward until exhausted. No carrybacks would be permitted.

In 1989 through 1996, the amount of federal earned income credit claimed by Indiana residents increased by an average of 12.5% each year (some adjustments were made to account for changes in eligibility). Using this average growth rate, the amounts claimed by Indiana residents were projected for FY 2000 and FY 2001 as shown below in Table A. These projections were then multiplied by 20% to show the estimated annual impact of the proposed credit:

**Table A:** Net Impact of Proposal

| Year | FY 2000 | FY 2001 |
|---|---|---|
| Projected federal earned income credits claimed in IN | $752,000,000 | $846,000,000 |
| 20% of projected amount | $150,400,000 | $169,200,000 |

This bill also eliminates the state earned income tax deduction for taxpayers with dependent children (this deduction is scheduled under current law to be eliminated effective January 1, 2001). Individuals are eligible for this deduction if they have at least one dependent child and earn less than $12,000 in total annual income. The deduction is equal to $12,000 minus the taxpayer's total Indiana income.

It has been estimated that this earned income tax credit currently reduces State Individual Adjusted Gross Income (AGI) Tax revenue by approximately $14 M each year. Eliminating this deduction would partially offset the impact of the new credit proposed in this bill (see Table B below):

**Table B:** Net Impact of Proposal

| Year | FY 2000 | FY 2001 |
|---|---|---|
| Impact of new state earned income credit | ($150,400,000) | ($169,200,000) |
| Impact of eliminating state earned income deduction | $14,000,000 | $14,000,000 |
| **Net impact** | **($136,400,000)** | **($155,200,000)** |

This bill could reduce state individual income tax collections beginning in FY 2000 (the credit would be based on the 1999 taxable year, although returns will be filed in April 2000). Revenue from the individual AGI tax is deposited in the state General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Revenue.

**Local Agencies Affected:**

**Information Sources:** Internal Revenue Service, Statistics of Income Bulletins, 1991-1998.